

Message Text

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ACTION ARA-14

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INFO AMEMBASSY BRASILIA
AMCONSUL PORTO ALEGRE
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STATE PASS TO DEPARTMENT OF ENERGY

E.O. 11652: N/A
TAGS: EMIN, ENRG, BR
SUBJECT: GOB ANNOUNCES INCREASE IN BRAZILIAN COAL RESERVES

REF: BRASILIA 6100

CABLE PREPARED JOINTLY BY AMCONGEN RIO AND AMCONSUL
PORTO ALEGRE.

SUMMARY: BRAZILIAN GOVERNMENT RECENTLY ANNOUNCED THAT
COUNTRY'S OVERALL COAL RESERVES NOW TOTAL AN ESTIMATED
20 BILLION TONS. ANNOUNCEMENT, MADE BY HEAD OF
BRAZIL'S DEPARTAMENTO NACIONAL DE PRODUCAO MINERAL
(DNPM), ALSO INCLUDED NEW RESERVE ESTIMATE FOR
BRAZIL'S METALLURGICAL (COKING) COAL DEPOSITS OF
600 MILLION TONS. POTENTIALLY SIGNIFICANT NEW DIS-
COVERIES OF COKING COAL AT GRAVATAI/MORUNGAVA (RIO
GRANDE DO SUL) AND ARARANGUA/TORRES (RIO GRANDE
DO SUL/SANTA CATARINA) ACCOUNTED FOR INCREASE IN
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COKING COAL RESERVES. AS A RESULT OF NEW METAL-
LURGICAL COAL RESERVE FIGURE, GOB IS ACTIVELY
INVOLVED IN ELABORATING A STRATEGY FOR DEVELOPMENT
OF THE COUNTRY'S DEPOSITS, PARTICULARLY AT GRAVATAI/
ARARANGUA SITES. PRIVATE COMPANIES WILL REPORTEDLY
BE INVITED TO PARTICIPATE IN DEVELOPMENT, BUT
SOME FORM OF FEDERAL GOVERNMENT PARTICIPATION--

INCLUDING SOLE OPERATION OF NEW MINES IN CASE
PRIVATE CAPITAL IS NOT FORTHCOMING -- IS LIKELY.
END SUMMARY.

1. GRAVATAI/MORUNGAVA RESERVES -- PROVED, PROBABLE
AND INFERRED -- ARE ESTIMATED BY DNPM OFFICIALS TO
TOTAL OVER 500 MILLION TONS (WITH 100 MILLION
RECOVERABLE) IN SEAMS LOCATED AT AN AVERAGE DEPTH OF
600 METERS AND RANGING FROM 1 TO 3 METERS IN THICKNESS.
THE COAL DEPOSITS ARE LOCATED RELATIVELY CLOSE TO
THE RIO GRANDE DO SUL COAST AND MAY EXTEND OUT INTO
THE ADJACENT CONTINENTAL SHELF.

2. ESTIMATES FOR COKING COAL RESERVES IN THE
ARARANGUA/TORRES REGION VARY, WITH AN AVERAGE FIGURE
OF SOME 100 MILLION TONS. THE COAL BED (450 KM2)
IS ALSO NEAR THE COAST, BUT IS LOCATED IN DEEPER
VEINS THAN GRAVATAI, CONCENTRATED AT AN AVERAGE
DEPTH OF 700 METERS.

3. COMMENT: BEGIN LIMITED OFFICIAL USE. OFFICIAL
AND UNOFFICIAL ESTIMATES FOR BRAZIL'S OVERALL COAL
RESOURCES HAVE VARIED WIDELY IN PAST, RANGING
FROM 5 TO 100 BILLION TONS. GIVEN COUNTRY'S MAGNITUDE,
AND VAST EXPANSES OF AS YET UNEXPLORED TERRAIN, NEW
20 BILLION TON RESERVE FIGURE IS MORE USEFULLY
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CONSIDERED AS AN ORDER-OF-MAGNITUDE ESTIMATE, RATHER
THAN A NUMBER WHICH WILL BE USEFUL FOR ACTUAL
PLANNING PURPOSES. FURTHER, MOST OF COUNTRY'S COAL
IS OF RELATIVELY POOR QUALITY AND IS DIFFICULT TO
UTILIZE EFFICIENTLY. FINALLY, LACK OF ADEQUATE
TRANSPORTATION INFRASTRUCTURE (I.E. PARTICULARLY
RAIL) COMPLICATES LARGE-SCALE EXPLOITATION OF
DEPOSITS LOCATED IN SOUTHERN BRAZIL, SOME 750-1000
MILES FROM MAJOR INDUSTRIAL CENTERS. ON OTHER HAND,
NEW RIO GRANDE DO SUL/SANTA CATARINA COKING COAL
RESERVES MAY BE OF SIGNIFICANT FUTURE IMPORTANCE TO
BRAZIL'S STEEL INDUSTRY, PARTICULARLY IF OF BETTER
QUALITY AS PRELIMINARY INDICATIONS SUGGEST.

4. EXISTENCE OF SIZEABLE DEPOSITS OF COKING COAL
AT GRAVATAI/MORUNGAVA AND ARARANGUA/TORRES HAS BEEN
KNOWN FOR SOME MONTHS (REFTEL). HOWEVER, RECENT
DNPM ANNOUNCEMENT OF MAJOR NEW FINDS IN THE AREA --
IF CONFIRMED BY FURTHER WORK TO REFINE RESERVE
ESTIMATES -- WILL REPRESENT A SIGNIFICANT UPGRADING
OF BRAZIL'S CAPACITY TO SUPPLY A LARGER PORTION OF
ITS COKING COAL NEEDS--NOW A MIX OF ABOUT 20 PERCENT

DOMESTIC/80 PERCENT IMPORTED, WITH IMPORTED COAL COSTING
SOME \$200 MILLION PER YEAR -- FROM DOMESTIC SOURCES.
AT THE SAME TIME KNOWLEDGEABLE GEOLOGISTS ARGUE -- AND
DNPM STAFFERS PRIVATELY CONFIRM -- THAT AT LEAST ONE,
AND POSSIBLY TWO YEARS OF ADDITIONAL PROSPECTING
EFFORTS WILL BE REQUIRED BEFORE THE AREA'S TOATL
RECOVERABLE RESERVES CAN BE ESTIMATED ACCURATELY.
AN INTERESTING POSSIBILITY EXISTS IN CONNECTION WITH
THE NEW DISCOVERIES: I.E. THAT THE TWO DEPOSITS ARE
PART OF A SINGLE MASSIVE COAL SEAM STRETCHING FROM
RIO GRANDE DO SUL TO SANTA CATARINA. IF TRUE, AND
IF THE "SUPER-DEPOSIT" CONTAINS METALLURGICAL COAL
IN PERCENTAGES SIMILAR TO THOSE OF RESERVES ALREADY
LOCATED IN THE AREA, BRAZIL COULD BE ABLE TO SUPPLY
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MUCH, IF NOT ALL OF ITS COKING COAL REQUIREMENTS
FROM THE AREA'S DEPOSIT, PROVIDED QUALITY PROBLEMS
ASSOCIATED WITH CURRENTLY-MINED COKING COAL ARE NOT
ENCOUNTERED, OR CAN BE OVERCOME.

5. GRAVATAI/ARARANGUA COAL WILL REQUIRE
CAREFUL TESTING AND EVALUATION, SINCE BRAZILIAN COAL
GENERALLY IS NOT OF HIGH QUALITY, AND IS NORMALLY
CHARACTERIZED BY HIGH ASH AND HIGH SULPHUR CONTENT.
IN THAT CONNECTION, ALTHOUGH GOVERNMENT PLANNERS HAVE
ATTEMPTED TO FORCE DOMESTIC STEEL MILLS TO USE 30 PERCENT
DOMESTICALLY-PRODUCED COKING COAL, STEEL INDUSTRY

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OMB-01 CIAE-00 DODE-00 INR-10 NSAE-00 PA-01
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SOURCES HAVE REVEALED THAT THEY ARE UNABLE TO OPERATE EFFECTIVELY WITH MUCH MORE THAN A 20 PERCENT DOMESTIC /80 PERCENT IMPORTED COKING COAL MIX, DUE TO THE POOR QUALITY OF BRAZILIAN COAL.

6. QUESTION OF DEVELOPMENT OF NEW SOUTHERN BRAZILIAN RESERVES PROMISES TO BE COMPLEX. LOCAL, PRIVATELY-OWNED COAL PRODUCING COMPANIES WOULD BE EAGER TO DEVELOP POSSIBLY MASSIVE NEW BEDS, ASSUMING THAT DOMESTIC SALES PRICES CAN BE SET AT WHAT THEY CONSIDER TO BE ATTRACTIVE LEVELS - WHICH IS NOT A FOREGONE CONCLUSION. AT THE SAME TIME, INDUSTRY CONTACTS HAVE DISCLOSED AN INCREASING INTEREST IN BRAZILIAN COAL ON THE PART OF SEVERAL MAJOR MULTINATIONAL MINING CONCERNS. THIS INTEREST IS GENERATED PARTLY BECAUSE OF OVERSUPPLY AND/OR OTHERWISE DEPRESSED CONDITIONS FOR SOME OF THE OTHER MINERALS COMMODITIES WHICH THESE COMPANIES MINE, BUT MAY ALSO STEM FROM A DESIRE TO ENTER THE BRAZILIAN MINING SCENE IN A LIMITED OFFICIAL USE

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PREVIOUSLY LARGELY UNEXPLOITED SECTOR.

7. IN ADDITION, ALTHOUGH POSSIBLE DEVELOPMENT OF COAL RESERVES LOCATED ON THE CONTINENTAL SHELF MAY RAISE COMPLICATING TECHNICAL AND LEGAL QUESTIONS, SEVERAL KNOWLEDGEABLE GEOLGISTS BELIEVE THAT AREA'S BEST COAL SEAMS LIE UNDERWATER, EXTENDING OUT FROM THE RIO GRANDE DO SUL/SANTA CATARINA COASTLINE, AND THAT, IF THE COAL IS EVENTUALLY DEVELOPED, IT WILL BE MINED IN THESE OFFSHORE AREAS AS WELL. FINALLY, THE BRAZILIAN GOVERNMENT'S ROLE IN DEVELOPMENT OF THE GRAVATAI/ARARANGUA DEPOSITS HAS NOT BEEN CLARIFIED. SOME IN PRIVATE INDUSTRY ARE WORRIED THAT A "CARAJAS-TYPE" ATTITUDE WILL BE ADOPTED BY THE GOB: I.E., GOVERNMENT CONTROL OF EXPLOITATION OF THE AREA'S COAL RESERVES, ON THE BASIS THAT THEIR MAGNITUDE TRANSFORMS THEM INTO A "STRATEGIC" NATIONAL RESOURCE WHICH CANNOT BE ENTRUSTED - AT LEAST TOTALLY - TO THE PRIVATE SECTOR.

8. ON BALANCE, IT IS LIKELY THAT THE GOB WILL
ATTEMPT TO ASCERTAIN THE REAL DIMENSIONS OF THE NEW
SOUTHERN BRAZILIAN COAL RESERVES AS QUICKLY AS POS-
SIBLE, THEN ACCELERATE EFFORTS TO DEVELOP THE
DEPOSITS. PRIVATE INDUSTRY SHOULD BE ABLE TO
BECOME INVOLVED IN THIS DEVELOPMENT EFFORT, THOUGH TO
WHAT EXTENT IS UNKNOWN, ONE FACT SEEMS CLEAR:
BRAZIL'S SIZEABLE CURRENT BILL FOR IMPORTED COKING
COAL - \$200 MILLION, RISING TO A PROJECTED \$900
MILLION BY 1986 - WILL IMPEL THE GOV TO EXPLOIT NEW
DEPOSITS AS RAPIDLY AS POSSIBLE, ALTHOUGH
FIRST PRODUCTION WILL PROBABLY NOT BE AVAILABLE
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BEFORE 1981/2, NO MATTER HOW/RAPIDLY DEVELOPMENT
IS ACCELERATED. END COMMENT. END LIMITED OFFICAIL
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